

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Cheboygan County	County Cheboygan
Audit Date 12/31/05	Opinion Date 3/31/06	Date Accountant Report Submitted to State: 6/13/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address 16978 S. Riley Avenue	City Kincheloe	State MI	ZIP 49780
Accountant Signature <i>Anderson Tackman & Co PLC</i>		Date 6/13/06	

COUNTY OF CHEBOYGAN, MICHIGAN

BASIC FINANCIAL STATEMENTS

December 31, 2005

CHEBOYGAN COUNTY, MICHIGAN

ORGANIZATION

MEMBERS OF THE COUNTY COMMISSION

COMMISSIONER	LINDA SOCHA
COMMISSIONER	HERBERT MAKIMA
COMMISSIONER	PETER REDMOND
COMMISSIONER	ALICE MUSHLOCK
COMMISSIONER	DANIEL O'HENLEY
COMMISSIONER	JOHN B. WALLACE
COMMISSIONER	ROBERT R. BOLINGER

APPOINTED/ELECTED OFFICIALS

COUNTY ADMINISTRATOR	MICHAEL OVERTON
COUNTY TREASURER	LINDA A. CRONAN
COUNTY CLERK	MARY ELLEN TRYBAN
FINANCE DIRECTOR	MAUREEN ENGLE

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITORS' REPORT

Honorable Chairperson and Members
Of the Board of Commissioners
County of Cheboygan, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Cheboygan, Michigan as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County of Cheboygan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the Cheboygan County Road Commission, which represent 100% of the assets and revenues of the Discretely Presented Component Unit. Those financial statements were audited by other auditors whose report has been furnished to us and in our opinion, is so far as it relates to the amounts recorded for the Road Commission, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Cheboygan, Michigan as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2006 on our consideration of the County of Cheboygan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparisons as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Cheboygan's, basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and is not a required part of the basic financial statements of the County of Cheboygan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Anderson, Tackman & Company, PLC
Certified Public Accountants

March 31, 2006

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of **County of Cheboygan, Michigan** (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of fiscal year 2005 by \$22,084,942 (net assets). Of this \$10,091,144 (unrestricted net assets) may be used to meet the County's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, unreserved undesignated fund balance for the General Fund was \$1,910,853 or 21% of the total General Fund expenditures and transfers.
- The County construction project for the Sewer, in partnership with Inverness Township was completed in 2005.
- The County revenue was modified during 2004 due to state legislation which changed the property tax levy for Michigan taxpayers. The impact of Public Act 357 of 2004 to the County is that property taxes will be collected and a portion of the money will be set aside in a revenue sharing reserve fund. The State controls how the money can be transferred back to the General Fund for operations. This amount in theory is intended to replace the state revenue sharing money that has been paid by the State as a portion of the sales tax revenue pursuant to Proposal A. The impact of this proposal, which gradually shifts the levy from December to July will increase each year and peak in 2007. This will significantly impact the cash flow of the County at that time. The County now maintains a Revenue Sharing Reserve Fund as a governmental fund.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, earned but unused vacation leave and accrued interest expense).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include legislative, judicial, general government, public safety, health and welfare, recreation and culture and other. The business-type activities include marina operations, delinquent tax collections, tax foreclosures, Straits Regional Ride, and jail commissary operations.

The government-wide financial statements include not only the County itself (known as the primary government), but also the Cheboygan County Road Commission, a legally separate component unit for which the County is financially accountable. The Road Commission issued separate audited financial statements including a management discussion and analysis. In the government-wide financial statements, financial information for the Cheboygan County Road Commission is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 13-14 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains 39 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Revenue Sharing Reserve Fund, Housing Commission Fund and Inverness Township Sewer Fund, each of which are considered to be major funds. Data from the other 35 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget for its General and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with the General Fund and each major special revenue fund.

The basic governmental fund financial statements can be found on pages 15-16 this report.

Proprietary funds. The County maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its marina operations, delinquent tax collections, tax foreclosures, Straits Regional Ride and jail commissary operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Marina and Delinquent Tax Funds, which are considered major funds of the County. Individual fund data for the non-major enterprise funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on 18-20 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 21 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-43 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information including the combining statements referred to earlier in connection with nonmajor governmental, proprietary, and fiduciary funds which are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 44-58 of this report.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$22,084,942 at the close of fiscal year 2005 compared to \$20,176,061 at the close of 2004.

Investment in capital assets (e.g., land, buildings, vehicles, equipment and docks), less any related debt used to acquire those assets that is still outstanding represents approximately 39% of the County's net assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net assets (\$10,091,144) for 2005 may be used to meet the government's ongoing obligation to citizens and creditors.

**County of Cheboygan
Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current Assets	\$ 16,926,674	\$ 13,034,285	\$ 6,862,503	\$ 6,511,583	\$ 23,789,177	\$ 19,545,868
Noncurrent Assets	<u>7,397,510</u>	<u>7,444,844</u>	<u>1,572,493</u>	<u>1,656,231</u>	<u>8,970,003</u>	<u>9,101,075</u>
Total Assets	<u>24,324,184</u>	<u>20,479,129</u>	<u>8,434,996</u>	<u>8,167,814</u>	<u>32,759,180</u>	<u>28,646,943</u>
Current Liabilities	10,174,929	7,869,134	91,934	70,032	10,266,863	7,939,166
Long-Term Debt Outstanding	<u>407,375</u>	<u>531,716</u>	-	-	<u>407,375</u>	<u>531,716</u>
Total Liabilities	<u>10,582,304</u>	<u>8,400,850</u>	<u>91,934</u>	<u>70,032</u>	<u>10,674,238</u>	<u>8,470,882</u>
Net Assets						
Invested in Capital Assets -						
Net of Debt	7,111,173	6,993,655	1,572,493	1,656,231	8,683,666	8,649,886
Restricted	2,965,074	1,551,521	345,058	-	3,310,132	1,551,521
Unrestricted (Deficit)	<u>3,665,633</u>	<u>3,533,103</u>	<u>6,425,511</u>	<u>6,441,551</u>	<u>10,091,144</u>	<u>9,974,654</u>
Total Net Assets	<u>\$ 13,741,880</u>	<u>\$ 12,078,279</u>	<u>\$ 8,343,062</u>	<u>\$ 8,097,782</u>	<u>\$ 22,084,942</u>	<u>\$ 20,176,061</u>

At the end of the current fiscal year, the County is able to report positive balances in both categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's total net assets increased \$1,908,881 during the current fiscal year.

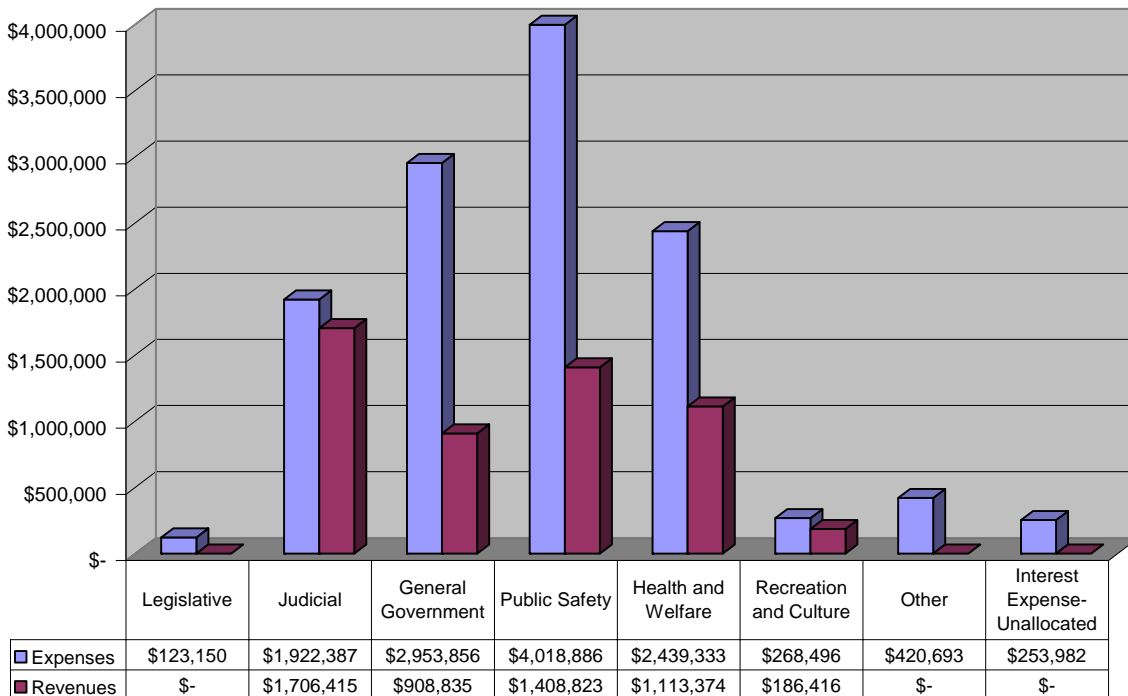
County of Cheboygan Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Program Revenues						
Charges for Services	\$ 2,941,428	\$ 2,183,523	\$ 1,464,873	\$ 1,181,025	\$ 4,406,301	\$ 3,364,548
Operating Grants and Contributions	2,135,371	3,176,085	239,838	456,189	2,375,209	3,632,274
Capital Grants and Contributions	247,064	439,340	80,702	-	327,766	439,340
General Revenues						
Property Taxes	7,908,526	7,775,637	-	-	7,908,526	7,775,637
State-Shared Revenues	-	156,988	-	-	-	156,988
Other Revenue	331,990	450,505	-	-	331,990	450,505
Unrestricted Investment Earnings	148,489	38,745	138,035	-	286,524	38,745
Total Revenues	<u>13,712,868</u>	<u>14,220,823</u>	<u>1,923,448</u>	<u>1,637,214</u>	<u>15,636,316</u>	<u>15,858,037</u>
Program Expenses						
Legislative	123,150	134,276	-	-	123,150	134,276
Judicial	1,922,387	2,337,008	-	-	1,922,387	2,337,008
General Government	2,953,856	2,791,237	-	-	2,953,856	2,791,237
Public Safety	4,018,886	3,118,354	-	-	4,018,886	3,118,354
Health and Welfare	2,439,333	3,234,562	-	-	2,439,333	3,234,562
Recreation & Culture	268,496	285,677	-	-	268,496	285,677
Other Expenses	420,693	210,478	-	-	420,693	210,478
Interest Expense – Unallocated	253,982	24,817	-	-	253,982	24,817
Marina	-	-	567,865	520,014	567,865	520,014
Delinquent Tax	-	-	10,960	15,503	10,960	15,503
Tax Foreclosure	-	-	111,188	60,747	111,188	60,747
Straits Regional Ride	-	-	630,826	627,353	630,826	627,353
Jail Commissary	-	-	5,813	6,057	5,813	6,057
Total Expenses	<u>12,400,783</u>	<u>12,136,409</u>	<u>1,326,652</u>	<u>1,229,674</u>	<u>13,727,435</u>	<u>13,366,083</u>
Change in Net Assets Before Transfers	1,312,085	2,084,414	596,796	407,540	1,908,881	2,491,954
Transfers – Net	<u>351,516</u>	<u>362,039</u>	<u>(351,516)</u>	<u>(362,039)</u>	<u>-</u>	<u>-</u>
Changes in Net Assets	1,663,601	2,446,453	245,280	45,501	1,908,881	2,491,954
Net Assets – Beginning	<u>12,078,279</u>	<u>9,631,826</u>	<u>8,097,782</u>	<u>8,052,281</u>	<u>20,176,061</u>	<u>17,684,107</u>
Net Assets – Ending	<u>\$ 13,741,880</u>	<u>\$ 12,078,279</u>	<u>\$ 8,343,062</u>	<u>\$ 8,097,782</u>	<u>\$ 22,084,942</u>	<u>\$ 20,176,061</u>

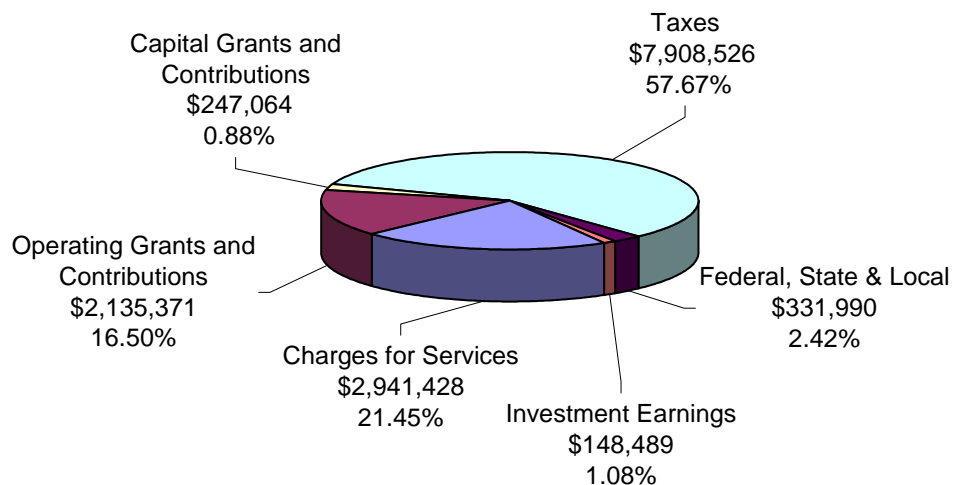
Governmental activities. Governmental activities increased the County's net assets by \$1,663,601, accounting for significantly all of the total increase in the net assets of the County.

The key element of this increase resulted from PA 357 of 2004 and the establishment of the Revenue Sharing Reserve Fund which increased net assets during the current fiscal year by approximately \$1,414,000.

**Expenses and Program Revenues -
Governmental Activities**

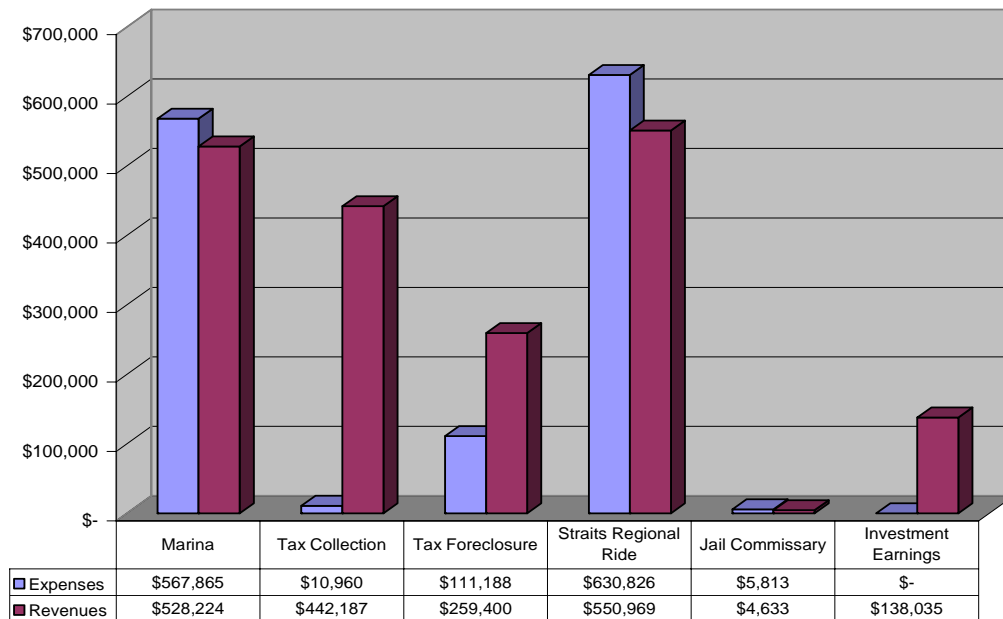


**Revenues by Source -
Governmental Activities**

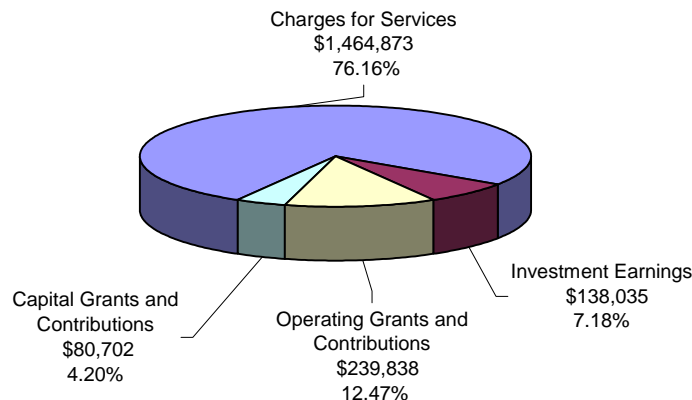


Business-type activities. Business-type activities increased the County's net assets by \$245,280, accounting for approximately 13% of the total increase in the County's net assets for fiscal year 2005, compared to \$45,501 or 2% for 2004. The Tax Foreclosure Fund realized \$168,050 from the sale of foreclosed properties causing an increase in revenues. The Tax Foreclosure Fund also expended additional funds for tax foreclosure activities in the amount of \$41,000. Revenue for the Marina increased in 2005 due to the increase of the cost of fuel, which amounted to \$58,932. The Marina also saw an increase in the cost of goods sold due to the increase in the cost of fuel, which amounted to \$68,209. The Delinquent Tax Fund realized increased revenues of approximately \$91,000 from fees and interest collected on delinquent taxes.

Expenses and Program Revenues- Business-type Activities



Revenues by Source- Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the main operating fund of the County. The General Fund balance increased by \$86,951 from \$1,830,770 to \$1,917,721 during 2005. Although revenues decreased by 4% in the General Fund and expenditures increased by 2%, through a 50% increase in transfers from multiple funds including the Delinquent Tax Fund and Reserve Sharing Reserve Fund, the County increased the General Fund balance by approximately 5%.

Proprietary funds. The County proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

General Fund Budgetary Highlights

The following differences between the final budget and the originally adopted budget:

- Federal revenues increased approximately \$139,000 due to increased funding from Homeland Security Grants.
- Elections expenditures increased \$6,500 due to increased expenditures for per diem and printed materials.
- Administrative Office expenditures increased approximately \$20,000 primarily due to the cost related to the interim Administrator's salary.
- Major Equipment & Building expenditures decreased approximately \$40,000 in the area of new equipment.
- Sheriff expenditures increased approximately \$93,000 due to additional road patrol salary and equipment.
- HSPG Block Grant expenditures increased approximately \$63,000 due to additional equipment and contractual services.
- Emergency Services expenditures increased approximately \$10,000 due to an increase in services and charges.
- Medical Examiner expenditures increased \$29,000 due to an increase in autopsy expenditures.
- Other Miscellaneous expenditures decreased approximately \$218,000 due to transferring budget appropriations to the departments noted above.

General Fund Budgetary Highlights (Continued)

Federal sources came in below the final budget by \$104,834 do to less Homeland Security funding than budgeted. Tax revenues came in below the budget by \$97,931 do to the summer tax collection not fully collected at year end. Interest on Deposits exceeds the final budget by \$114,416 due to better interest rates and investment strategies in 2005. In total actual revenues exceeded the final budget by \$16,157. Actual expenditures came in under budget for all functional expenditures as well as departments. In summary, actual expenditures were below final budget by \$392,621. The significant variances were from federal grants. The final budget also differed from the originally adopted budget because of changes in grant revenue, which were generally matched with expenditures. These included public safety expenditures for Stonegarden, Federal Grants, Solutions Area Planner, and Homeland Security Training.

Revenue Sharing Reserve Fund Budgetary Highlights

This fund was new for the 2004 fiscal year and, therefore, an original budget was not adopted. The maximum allowable expenditure amount for this fund is determined by the State of Michigan; however, it is a County practice to balance the budget, and accordingly, budgeted expenditures were recorded for the same amount as budgeted tax revenue which was equal to one third of the 2004 tax levy. This resulted in a significant budget variance. This fund was established to accumulate funds and the excess revenue over expenditures was expected.

Housing Commission Fund Budgetary Highlights

The other revenue final budget differed from the originally adopted budget mainly because there was an increase in program income. Program income must be expended prior to receiving any federal grant funding and, therefore, there was no federal sources revenue for 2005. The difference between the state sources revenue original and final budgets and the actual amount was due to an inability to perform services covered by the grant, as there are not any lead-based paint abatement contractors in our area.

Capital Asset and Debt Administration

Capital assets. The County defines a capital asset as an asset whose cost exceeds \$5,000 and useful life is greater than one year. Included in the cost of a capital asset are items such as labor and freight and any other costs associated with bringing the asset into full operation. Assets are depreciated using the straight-line method over the course of their useful lives.

Capital Asset and Debt Administration (Continued)**County of Cheboygan
Capital Assets**
(net of depreciation, where applicable)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 3,218,280	\$ -	\$ 3,218,280
Land improvements	32,816	304,709	337,525
Buildings and improvements	3,559,286	623,772	4,183,058
Machinery and equipment	313,553	20,372	333,925
Transportation equipment	273,575	350,617	624,192
Docks	-	273,023	273,023
Total capital assets	<u>\$ 7,397,510</u>	<u>\$ 1,572,493</u>	<u>\$ 8,970,003</u>

Additional information on the County capital assets can be found in Note 5 on pages 32-34 of this report.

Debt administration. Debt incurred in the course of constructing or acquiring a capital asset is recorded and paid for from a debt service fund.

Long-term debt. Debt is classified as long-term if the debt matures in a period greater than one year. The County entered into an agreement with Inverness Township for the Inverness Township Sewer Project. The Township pledged its full faith and credit for the repayment of the loan; therefore, this debt is not included in the County's financial statements.

Additional information on the County long-term debt can be found in Note 7 on pages 36-37 of this report.

Economic Factors and Next Year's Budgets and Rates

The County continues to budget in anticipation of State and Federal budget cuts with less grant and other funding from these sources. The elimination of state revenue sharing in 2004 and implementation of the State Revenue Sharing Reserve will continue to impact the County budget and in particular, cash flow, until it is fully implemented in 2007. The 2006 General Fund budget is \$9.9 million and maintains essentially the same programming as 2005.

Requests for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County Administrative Office, County of Cheboygan, Michigan, 870 S. Main, PO Box 70, Cheboygan, Michigan, 49721.

Basic Financial Statements

County of Cheboygan, Michigan

Statement of Net Assets December 31, 2005

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Unit
ASSETS:				
Current Assets:				
Cash & Equivalents - Unrestricted	\$ 4,067,068	\$ 4,954,324	\$ 9,021,392	\$ 768,007
Cash & Equivalents - Restricted	7,250	342,206	349,456	-
Receivables:				
Accounts	39,084	60,608	99,692	438
Taxes	8,201,367	1,277,844	9,479,211	-
Interest	-	209,250	209,250	-
Notes	952,478	-	952,478	-
Lease	3,295,000	-	3,295,000	-
Internal Loans	6,868	(6,868)	-	-
Prepaid Expenses	-	770	770	230,874
Due from Governmental Units	357,559	-	357,559	914,938
Inventories	-	24,369	24,369	922,799
Total Current Assets	16,926,674	6,862,503	23,789,177	2,837,056
Noncurrent Assets:				
Capital Assets Not Depreciated	3,218,280	-	3,218,280	7,605,220
Capital Assets (Net of Accumulated Depreciation)	4,179,230	1,572,493	5,751,723	14,541,591
TOTAL ASSETS	24,324,184	8,434,996	32,759,180	24,983,867
LIABILITIES:				
Current Liabilities:				
Accounts Payable	245,835	84,223	330,058	92,060
Accrued Liabilities	85,732	7,711	93,443	100,745
Accrued Interest Payable	2,241	-	2,241	52,226
Due to Governmental Units	35,613	-	35,613	7,591
Advances and Deposits	-	-	-	459,897
Deferred Revenue	9,660,475	-	9,660,475	-
Capital Leases	5,033	-	5,033	-
Installment Loans	140,000	-	140,000	-
Bonds Payable	-	-	-	85,000
Total Current Liabilities	10,174,929	91,934	10,266,863	797,519
Noncurrent Liabilities:				
Vested Employee Benefits	266,071	-	266,071	330,365
Capital Leases	1,304	-	1,304	-
Installment Loans	140,000	-	140,000	-
Bonds Payable	-	-	-	2,920,000
Total Noncurrent Liabilities	407,375	-	407,375	3,250,365
TOTAL LIABILITIES	10,582,304	91,934	10,674,238	4,047,884
NET ASSETS:				
Invested in Capital Assets (net of related debt)	7,111,173	1,572,493	8,683,666	19,141,811
Restricted for County Road	-	-	-	1,364,250
Restricted	2,965,074	345,058	3,310,132	-
Unrestricted	3,665,633	6,425,511	10,091,144	429,922
TOTAL NET ASSETS	\$ 13,741,880	\$ 8,343,062	\$ 22,084,942	\$ 20,935,983

See accompanying notes to financial statements.

County of Cheboygan, Michigan

Statement of Activities Year Ended December 31, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
Legislative	\$ 123,150	\$ -	\$ -	\$ -	\$ (123,150)	\$ -	\$ (123,150)	\$ -
Judicial	1,922,387	859,481	846,934	-	(215,972)	-	(215,972)	-
General Government	2,953,856	551,909	356,926	-	(2,045,021)	-	(2,045,021)	-
Public Safety	4,018,886	980,883	301,152	126,788	(2,610,063)	-	(2,610,063)	-
Health & Welfare	2,439,333	362,739	630,359	120,276	(1,325,959)	-	(1,325,959)	-
Recreation & Culture	268,496	186,416	-	-	(82,080)	-	(82,080)	-
Other Expenses	420,693	-	-	-	(420,693)	-	(420,693)	-
Interest Expense - Unallocated	253,982	-	-	-	(253,982)	-	(253,982)	-
Total Governmental Activities	12,400,783	2,941,428	2,135,371	247,064	(7,076,920)	-	(7,076,920)	-
Business-type activities:								
Marina	567,865	528,224	-	-	-	(39,641)	(39,641)	-
Delinquent Tax	10,960	442,187	-	-	-	431,227	431,227	-
Tax Foreclosure	111,188	259,400	-	-	-	148,212	148,212	-
Straits Regional Ride	630,826	230,429	239,838	80,702	-	(79,857)	(79,857)	-
Jail Commissary	5,813	4,633	-	-	-	(1,180)	(1,180)	-
Total Business-type Activities	1,326,652	1,464,873	239,838	80,702	-	458,761	458,761	-
Total Primary Government	<u>\$ 13,727,435</u>	<u>\$ 4,406,301</u>	<u>\$ 2,375,209</u>	<u>\$ 327,766</u>	<u>(7,076,920)</u>	<u>458,761</u>	<u>(6,618,159)</u>	<u>-</u>
Component Unit:								
Road Commission	6,371,270	1,972,861	5,394,798	-				996,389
Total Component Unit	6,371,270	1,972,861	5,394,798	-				996,389
Total	<u>\$ 20,098,705</u>	<u>\$ 6,379,162</u>	<u>\$ 7,770,007</u>	<u>\$ 327,766</u>				
General Revenues and Transfers:								
Taxes					7,908,526	-	7,908,526	-
Federal, State, & Local - General					331,990	-	331,990	-
Investment Earnings					148,489	138,035	286,524	23,700
Other					-	-	-	274
Transfers					351,516	(351,516)	-	-
Total General Revenues and Transfers					8,740,521	(213,481)	8,527,040	23,974
Change in Net Assets					1,663,601	245,280	1,908,881	1,020,363
Net Assets - Beginning					12,078,279	8,097,782	20,176,061	19,915,620
Net Assets - Ending					<u>\$ 13,741,880</u>	<u>\$ 8,343,062</u>	<u>\$ 22,084,942</u>	<u>\$ 20,935,983</u>

See accompanying notes to financial statements.

County of Cheboygan, Michigan

Balance Sheet Governmental Funds December 31, 2005

	General	Revenue Sharing Reserve	Housing Commission	Inverness Sewer Debt	Other Governmental Funds	Total Governmental Funds
ASSETS:						
Cash & Equivalents - Unrestricted	\$ 1,963,161	\$ 1,129,182	\$ 120,496	\$ 4,322	\$ 849,907	\$ 4,067,068
- Restricted	-	-	-	7,250	-	7,250
Receivables:						
Accounts	7,689	-	-	-	31,395	39,084
Taxes	5,839,197	1,835,892	-	-	526,278	8,201,367
Notes	-	-	952,478	-	-	952,478
Lease	-	-	-	3,295,000	-	3,295,000
Due from Other Funds	52,713	-	-	-	-	52,713
Advance to Other Funds	6,868	-	-	-	-	6,868
Due from Governmental Units	164,321	-	14,037	-	179,201	357,559
TOTAL ASSETS	\$ 8,033,949	\$ 2,965,074	\$ 1,087,011	\$ 3,306,572	\$ 1,586,781	\$ 16,979,387
LIABILITIES:						
Accounts Payable	\$ 203,005	\$ -	\$ 50	\$ -	\$ 42,780	\$ 245,835
Accrued Liabilities	74,026	-	-	-	11,706	85,732
Due to Other Funds	-	-	9,054	-	43,659	52,713
Due to Governmental Units	-	-	-	-	35,613	35,613
Deferred Revenue	5,839,197	-	952,478	3,295,000	526,278	10,612,953
TOTAL LIABILITIES	6,116,228	-	961,582	3,295,000	660,036	11,032,846
FUND BALANCES:						
Reserved	6,868	2,965,074	-	-	-	2,971,942
Unreserved:						
Designated for subsequent year's expenditures	-	-	36,513	-	106,000	142,513
Designated for Debt Service	-	-	-	11,572	-	11,572
Undesignated	1,910,853	-	88,916	-	820,745	820,745
TOTAL FUND BALANCES	1,917,721	2,965,074	125,429	11,572	926,745	5,946,541
TOTAL LIABILITIES AND FUND BALANCES	\$ 8,033,949	\$ 2,965,074	\$ 1,087,011	\$ 3,306,572	\$ 1,586,781	

Reconciliation to amounts reported for governmental activities in the statement of net assets:

Capital assets used by governmental activities are not financial resources and therefore are not reported in the funds.	7,397,510
Deferred revenue on notes receivable is recognized as revenue under full accrual.	952,478
Long-term notes payable for governmental activities not due and payable in the current period.	(280,000)
Compensated absences liability not recognized in the funds.	(266,071)
Capital leases payable for governmental activities not due and payable in current period.	(6,337)
Accrued interest expense on long-term debt not recognized in the funds.	(2,241)
Net assets of governmental activities	\$ 13,741,880

County of Cheboygan, Michigan

Statement of Changes in Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds Year Ended December 31, 2005

	General	Revenue Sharing Reserve	Housing Commission	Inverness Sewer Debt	Other Governmental Funds	Total Governmental Funds
REVENUES:						
Taxes	\$ 5,573,434	\$ 1,835,892	\$ -	\$ -	\$ 499,200	\$ 7,908,526
Federal Sources	271,965	-	-	-	428,241	700,206
State Sources	640,782	-	-	-	797,747	1,438,529
Local Sources	90,781	-	-	191,172	32,643	314,596
Charges for Services	1,278,404	-	-	-	674,177	1,952,581
Contributions	-	-	-	-	6,562	6,562
Licenses & Permits	76,702	-	-	-	-	76,702
Fines & Penalties	48,719	-	-	-	28,207	76,926
Refunds & Reimbursements	219,374	-	-	-	-	219,374
Interest & Rentals	139,416	-	1,493	797	6,783	148,489
Other Revenues	5,809	29,526	71,076	140,818	510,878	758,107
TOTAL REVENUES	8,345,386	1,865,418	72,569	332,787	2,984,438	13,600,598
EXPENDITURES:						
Legislative	123,150	-	-	-	-	123,150
Judicial	1,483,807	-	-	-	431,386	1,915,193
General Government	2,642,282	-	-	-	268,179	2,910,461
Public Safety	3,417,779	-	-	-	691,496	4,109,275
Health & Welfare	629,460	-	79,533	-	1,689,658	2,398,651
Recreation & Cultural	56,861	-	-	-	201,122	257,983
Other Expenditures	141,845	-	-	140,818	-	282,663
Capital Outlay	-	-	-	-	133,173	133,173
Debt Service	-	-	-	190,728	186,460	377,188
TOTAL EXPENDITURES	8,495,184	-	79,533	331,546	3,601,474	12,507,737
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(149,798)	1,865,418	(6,964)	1,241	(617,036)	1,092,861
OTHER FINANCING SOURCES (USES):						
Bond Proceeds	-	-	-	-	120,276	120,276
Transfers In	891,785	-	-	-	641,044	1,532,829
Transfers Out	(655,036)	(451,865)	-	-	(74,412)	(1,181,313)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	86,951	1,413,553	(6,964)	1,241	69,872	1,564,653
FUND BALANCES, JANUARY 1	1,830,770	1,551,521	132,393	10,331	856,873	4,381,888
FUND BALANCES, DECEMBER 31	\$ 1,917,721	\$ 2,965,074	\$ 125,429	\$ 11,572	\$ 926,745	\$ 5,946,541

County of Cheboygan, Michigan

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2005

Net changes in fund balances – total governmental funds \$ 1,564,653

The change in net assets reported for governmental activities in the
Statement of Activities is different because:

Governmental funds reported capital outlays as expenditures.
However, in the statement of activities, the cost of those assets
is capitalized and the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense.
This is the amount by which depreciation expense (\$361,115)
and loss on disposal of assets (\$4,738) exceeded capital outlays
of \$318,519. (47,334)

Repayment of debt principal is an expenditure in the governmental
fund but reduces the liability in the statement of net assets. 164,851

Revenues in the Statement of Activities that do not provide current
financial resources are not reported as revenues in the funds, but
rather are deferred. (8,006)

Under the modified accrual basis of accounting used in governmental
funds, expenditures are not recognized for transactions that are not
normally paid with expendable available financial resources. In the
statement of activities, however, which is presented on the accrual
basis, expenses and liabilities are reported regardless of when financial
resources are available. In addition, interest on long-term debt is not
recognized under the modified accrual basis of accounting until due,
rather than as it accrues. This adjustment combines the following net
changes:

Compensated absences	(13,768)	
Accrued interest on bonds	<u>3,205</u>	
		<u>(10,563)</u>

Changes in net assets of governmental funds \$ 1,663,601

County of Cheboygan, Michigan

Statement of Net Assets Proprietary Funds December 31, 2005

	Enterprise Funds			Totals
	Marina	Delinquent Tax	Other Funds	
ASSETS:				
Cash & Investments - Unrestricted	\$ 26,876	\$ 4,331,653	\$ 595,795	\$ 4,954,324
- Restricted	342,206	-	-	342,206
Receivables:				
Accounts	7,735	47,527	5,346	60,608
Taxes	-	1,277,844	-	1,277,844
Interest	-	209,250	-	209,250
Prepaid Expenses	770	-	-	770
Inventory	24,369	-	-	24,369
Total Current Assets	401,956	5,866,274	601,141	6,869,371
Capital Assets (Net of Accumulated Depreciation)	1,213,209	-	359,284	1,572,493
TOTAL ASSETS	<u>\$ 1,615,165</u>	<u>\$ 5,866,274</u>	<u>\$ 960,425</u>	<u>\$ 8,441,864</u>
LIABILITIES:				
Accounts Payable	\$ -	\$ -	\$ 84,223	\$ 84,223
Accrued Liabilities	-	-	7,711	7,711
Advances from Other Funds	-	-	6,868	6,868
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>98,802</u>	<u>98,802</u>
NET ASSETS:				
Invested in Capital Assets	1,213,209	-	359,284	1,572,493
Restricted	342,206	2,852	-	345,058
Unrestricted	59,750	5,863,422	502,339	6,425,511
TOTAL NET ASSETS	<u>\$ 1,615,165</u>	<u>\$ 5,866,274</u>	<u>\$ 861,623</u>	<u>\$ 8,343,062</u>

County of Cheboygan, Michigan

Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds Year Ended December 31, 2005

	Enterprise Funds			
	Marina	Delinquent Tax	Other Funds	Totals
OPERATING REVENUES:				
Federal Revenue - Operations	\$ -	\$ -	\$ 29,627	\$ 29,627
State Revenue - Operations	-	-	210,211	210,211
Charges for Services	528,224	163,674	494,462	1,186,360
Interest & Rentals	-	278,513	-	278,513
TOTAL OPERATING REVENUES	528,224	442,187	734,300	1,704,711
OPERATING EXPENSES:				
Recreation	567,865	-	-	567,865
Other Expenses	-	8,974	747,827	756,801
TOTAL OPERATING EXPENSES	567,865	8,974	747,827	1,324,666
OPERATING INCOME (LOSS)	(39,641)	433,213	(13,527)	380,045
NON-OPERATING REVENUES (EXPENSES):				
Interest on Deposits	5,938	123,808	8,289	138,035
Interest Expense	-	(1,986)	-	(1,986)
TOTAL NON-OPERATING REVENUES (EXPENSES)	5,938	121,822	8,289	136,049
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(33,703)	555,035	(5,238)	516,094
Capital Grants - Federal	-	-	64,562	64,562
Capital Grants - State	-	-	16,140	16,140
Transfers In	-	-	43,992	43,992
Transfers Out	-	(395,508)	-	(395,508)
CHANGE IN NET ASSETS	(33,703)	159,527	119,456	245,280
NET ASSETS, JANUARY 1	1,648,868	5,706,747	742,167	8,097,782
NET ASSETS, DECEMBER 31	\$ 1,615,165	\$ 5,866,274	\$ 861,623	\$ 8,343,062

County of Cheboygan, Michigan

Statement of Cash Flows Proprietary Funds Year Ended December 31, 2005

	Enterprise Funds			
	Marina	Delinquent Tax	Other Funds	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Customers	\$ 516,086	\$ 93,648	\$ 784,842	\$ 1,394,576
Payments to Suppliers	(386,231)	(8,974)	(653,533)	(1,048,738)
Payments to Employees	(126,825)	-	-	(126,825)
Net Cash Provided (Used) by Operating Activities	3,030	84,674	131,309	219,013
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Transfers Out	-	(395,508)	-	(395,508)
Transfers In	-	-	43,992	43,992
Cash Provided (Used) by Non-Capital Financing Activities	-	(395,508)	43,992	(351,516)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital Grant Proceeds	-	-	80,702	80,702
Acquisition of Capital Assets	(10,306)	-	(78,575)	(88,881)
Notes Payable Proceeds	-	500,000	-	500,000
Principal Payments	-	(500,000)	-	(500,000)
Interest Payments	-	(1,986)	-	(1,986)
Net Cash Provided (Used) by Capital and Related Financing Activities	(10,306)	(1,986)	2,127	(10,165)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest income	5,938	123,808	8,289	138,035
Net Cash Provided (Used) by Investing Activities	5,938	123,808	8,289	138,035
Net Increase (Decrease) in Cash and Cash Equivalents	(1,338)	(189,012)	185,717	(4,633)
Cash and Cash Equivalents - Beginning of the Year	370,420	4,520,665	410,078	5,301,163
Cash and Cash Equivalents - End of the Year	\$ 369,082	\$ 4,331,653	\$ 595,795	\$ 5,296,530
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ (39,641)	\$ 433,213	\$ (13,527)	\$ 380,045
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	55,489	-	117,130	172,619
Change in Assets and Liabilities:				
Accounts Receivable	(7,735)	(11,178)	50,542	31,629
Taxes Receivable	-	(290,895)	-	(290,895)
Interest Receivable	-	(46,466)	-	(46,466)
Prepaid Expenses and Inventories	(4,404)	-	-	(4,404)
Increase (Decrease) in Liabilities:				
Due to Others	-	-	(75,417)	(75,417)
Accounts Payable	-	-	44,870	44,870
Accrued Liabilities	(679)	-	7,711	7,032
Net Cash Provided by Operating Activities	\$ 3,030	\$ 84,674	\$ 131,309	\$ 219,013

County of Cheboygan, Michigan

Statement of Fiduciary Net Assets Fiduciary Funds December 31, 2005

	<u>Agency Funds</u>
ASSETS:	
Cash & Cash Equivalents:	
Unrestricted	<u>\$ 505,062</u>
 TOTAL ASSETS	 <u><u>\$ 505,062</u></u>
 LIABILITIES:	
Due to Others	\$ 212,849
Court Items Payable	61,785
Other Liabilities	<u>230,428</u>
 TOTAL LIABILITIES	 <u><u>\$ 505,062</u></u>

Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of Cheboygan, Michigan, conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the County:

A – Reporting Entity:

The County of Cheboygan, Michigan, is a public corporation created under the Constitution and Statutes of the State of Michigan with the County Seat located in the City of Cheboygan. The County operates under an elected Board of Commissioners (seven members) and provides services to its 26,448 residents (per 2000 census) in many areas, including law enforcement, administration of justice, community enrichment and development, public works, health and welfare, and recreation and cultural activities.

Component Unit:

In conformity with U.S. generally accepted accounting principles, the financial statements of the component unit have been included in the financial reporting entity as a discretely presented component unit.

Discretely Presented Component Unit

The component unit column in the government-wide financial statements include the financial data of the other component unit of the County. The following is a summary of the component unit:

Cheboygan County Road Commission - The County Road Commission is considered part of the County reporting entity for financial reporting purposes. The Road Commission is governed by a board elected by electorate of Cheboygan County. The Road Commission may not issue debt or levy taxes without the approval of the County Board of Commissioners. However, this component unit of Cheboygan County has been audited and reported separately. Complete financial statements of the individual component unit can be obtained from the following:

Cheboygan County Road Commission
5302 South Straits Highway
Indian River, MI 49747

Multi-County Agencies

The County participates jointly in the operation of the District Health Department Office #4 with Alpena, Presque Isle, and Montmorency Counties. All Financial operations of the District Health Department Office #4 are recorded in the financial statements of Alpena County. The funding formula requires the County to provide approximately 30% of the budget appropriation requirement, which amounted to \$228,941 for the year ended December 31, 2005. This expenditure was made from the General Fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The County participated in the North Country Community Mental Health Authority (the "Authority") with Charlevoix, Otsego, Emmet, Kalkaska, and Antrim Counties. Financial statements for the Authority can be obtained from the Authority. The County contributed \$111,995 for the year ended December 31, 2005. This expenditure was made from the General Fund.

Regional Joint Operations

The County contributes annually to the Cheboygan Airport Authority. The Cheboygan Airport Authority operates with a separate treasurer. The County's contribution for the year ended December 31, 2005 was \$56,861. Financial statements for the Cheboygan Airport Authority may be obtained through the Cheboygan County Airport, 1520 Levering Road, Cheboygan, Michigan, 49721.

The County, together with Charlevoix and Emmet Counties, has jointly established the C.C.E. Central Dispatch Authority (the "C.C.E."), which is a Michigan municipal body formed by, and on behalf of participating municipalities located within the counties of Charlevoix, Cheboygan, and Emmet, through the auspices of the Inter-governmental Contracts between Municipalities Act, Urban Cooperation Act, and Emergency Telephone Service Enabling Act. The County is required to contribute annually to the operations of the C.C.E. The funding formula, which is reviewed every five years, calls for each County to provide 20% of the required funding (total 60% for the three counties), plus their prorata share of the remainder, based on telephone lines. The County's share for the year ended December 31, 2005 was \$371,245. The purpose of the C.C.E. is to centralize the dispatch of emergency service responders in the three county areas. Financial statements for the C.C.E. may be obtained through C.C.E. Central Dispatch Authority, P.O. box 866, Petoskey, Michigan, 49770.

B – Government-Wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component unit for which the primary government is financially accountable.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's tax collection function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for tax collections. Operating expenses for proprietary funds include the cost of sales and services, and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Taxes Receivable – Current and Property Taxes

The County of Cheboygan property tax is levied on each December 1st and July 1st on the taxable valuation of property (as defined by State statutes) located in the County of Cheboygan as of the preceding December 31st and July 31st.

Although the County of Cheboygan's 2004 ad valorem tax is levied and collectible on December 1, 2004 and 2005 on July 1, 2005, it is the County of Cheboygan's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period.

The 2004 taxable valuation of the County of Cheboygan totaled \$1,072,875,502, on which ad valorem taxes levied consisted of 5.2158 mills for the County operating and .4701 mills for Senior Services, raising \$5,595,904 for operating and \$504,359 for Senior Services. These amounts are recognized in the respective General and Special Revenue Fund financial statements as tax revenue.

The July 1, 2005 taxable valuation of the County of Cheboygan totaled \$1,144,828,435, on which ad valorem taxes levied consisted of 1.7001 mills for the General Fund, this amount is recognized in the General Fund financial statements as revenue.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The County also raised \$1,835,892 for the Revenue Sharing Reserve. This money was 1/3 of the county's operating levy in 2004.

All other revenue items are considered to be available only when cash is received by the government.

The County reports the following major governmental funds:

General Fund

This is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Revenue Sharing Reserve Fund

This fund accounts for restricted funds that are limited to amounts previously reported as state revenue sharing distributed annually, which can be used to fund governmental operations.

Housing Commission Fund

This fund accounts for housing programs provided to the citizens of Cheboygan County.

Inverness Sewer Debt Fund

This fund accounts for the repayment of Inverness Township's sewer bond from Rural Development.

The County reports the following major proprietary funds:

Marina Fund

This fund accounts for the operations of the County marina.

Delinquent Tax Fund

This fund accounts for the collection of delinquent property taxes.

Additionally, the County reports the following fund types:

Special Revenue Funds

These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Capital Project Fund**

This fund accounts for the acquisition or construction of major facilities other than those financed by proprietary funds.

Enterprise Funds

These funds account for the County's business-type operations that provide services to residents of the County for a fee.

Agency Funds

These funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

D - Assets, Liabilities, and Net Assets or Equity:

Bank Deposits – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Deposits are recorded at cost.

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st and July 1st on the taxable valuation of property as of the preceding December 31st and July 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items – All inventories, including the cost of supplies, are expensed when purchased. Certain other expenditures are recorded as prepaid assets in the fund level and government-wide financial statements.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant, and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 years
Building Improvements	15 years
Vehicles	3 to 7 years
Office Equipment	5 to 10 years
Computer Equipment	5 years

The estimated useful lives for the component unit are as follows:

Building and Improvements	40 years
Equipment	5 to 8 years
Roads	8 to 30 years
Bridges	25 to 50 years

Compensated Absences – It is the County’s policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Long-Term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Deferred Revenues – Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not.

Grants and Other Intergovernmental Revenues – Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the representative grants.

Interfund Transfers – During the course of normal operations, the County has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. The classification of amounts recorded as subsidies, advances, or equity contributions is determined by County management.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control – The County follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Each December, after receiving input from the individual departments, the Board of Commissioners prepares a proposed operating budget for the fiscal period commencing January 1st and lapses on December 31st. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to January 1st, the budget is legally enacted through a resolution passed by the Board of Commissioners.
- d. Budgetary control is exercised at the departmental level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the Board of Commissioners. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The County does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Board of Commissioners during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General Fund revenue budget was adopted on the basis of activities or programs financed by the General Fund.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Michigan Public Act 621 of 1978 requires that budgets be adopted for governmental funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the governmental fund types for which budgets were legally adopted. The original budget adopted for the General Fund was modified throughout the year through various budget amendments.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the County's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Unit</u>
Cash and Cash Equivalents					
- Unrestricted	\$ 4,067,068	\$ 4,954,324	\$ 9,021,392	\$ 505,062	\$ 768,007
- Restricted	<u>7,250</u>	<u>342,206</u>	<u>349,456</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 4,074,318</u>	<u>\$ 5,296,530</u>	<u>\$ 9,370,848</u>	<u>\$ 505,062</u>	<u>\$ 768,007</u>

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Unit</u>
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 9,369,158	\$ 505,062	\$ 767,707
Petty Cash and Cash on Hand	<u>1,690</u>	<u>-</u>	<u>300</u>
Total	<u>\$ 9,370,848</u>	<u>\$ 505,062</u>	<u>\$ 768,007</u>

Interest rate risk. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The County has no investment policy that would further limit its investment choices.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. State law does not require and the County does not have a policy for deposit custodial credit risk. As of year end, \$10,273,953 of the County's bank balance of \$11,009,393 was exposed to credit risk because it was uninsured and uncollateralized. \$0 was uninsured and collateralized by the pledging financial institution.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the County to deposit and invest in one or more of the following:

- a. Bond, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Banker's acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The County's deposits and investment policy are in accordance with statutory authority.

NOTE 4 - RECEIVABLES

The composition of receivables is as follows as of December 31, 2005:

	Governmental Activities	Business-type Activities	Component Unit
Accounts receivable	\$ 39,084	\$ 60,608	\$ 438
Taxes receivable	8,201,367	1,277,844	-
Interest receivable	-	209,250	-
Notes receivable, due in more than 1 year	952,478	-	-
Lease receivable, due in 1 year	40,000	-	-
Lease receivable, due in more than 1 year	3,255,000	-	-
Due from other governmental units	<u>357,559</u>	<u>-</u>	<u>914,938</u>
Receivables	<u>\$ 12,845,488</u>	<u>\$ 1,547,702</u>	<u>\$ 915,376</u>

On December 10, 2002 the County borrowed \$3,419,000 from the United States Department of Agriculture under the provisions of the consolidated Farm and Rural Development Act (7 U.S.C. 1921 et seq.) for the development of a sewer extension in Inverness Township.

On May 1, 2002, Inverness Township entered into a contract with the County. This contract provides among other things that the County will finance a portion of this project in anticipation of sufficient payments to be made by the Township to pay the principal and interest on the loan. The outstanding lease receivable recorded in the accompanying basic financial statements is offset by deferred revenue because it is not available for use by the County. The loan consists of a series of notes ranging in amounts of \$40,000 to \$100,000, with maturity dates from September 1, 2005 to September 1, 2024 with interest charged at 4.625%.

The Township has pledged its full faith and credit for the repayment of the loan. Neither the full faith and credit nor the taxing power of the County is pledged for the payment of the notes; therefore, the debt has not been recorded in the accompanying basic financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 3,218,280	\$ -	\$ -	\$ 3,218,280
Subtotal	<u>3,218,280</u>	<u>-</u>	<u>-</u>	<u>3,218,280</u>

NOTE 5 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets being depreciated:</i>				
Land improvements	35,067	5,900	-	40,967
Buildings and improvements	6,684,284	5,600	-	6,689,884
Machinery and equipment	642,702	94,611	30,060	707,253
Vehicles	<u>423,629</u>	<u>212,408</u>	<u>-</u>	<u>636,037</u>
Subtotal	<u>7,785,682</u>	<u>318,519</u>	<u>30,060</u>	<u>8,074,141</u>
<i>Less accumulated depreciation for:</i>				
Land improvements	(5,650)	(2,501)	-	(8,151)
Buildings and improvements	(2,953,698)	(176,900)	-	(3,130,598)
Machinery and equipment	(337,133)	(81,889)	25,322	(393,700)
Transportation equipment	<u>(262,637)</u>	<u>(99,825)</u>	<u>-</u>	<u>(362,462)</u>
Subtotal	<u>(3,559,118)</u>	<u>(361,115)</u>	<u>25,322</u>	<u>(3,894,911)</u>
Net Capital Assets Being Depreciated	<u>4,226,564</u>	<u>(42,596)</u>	<u>4,738</u>	<u>4,179,230</u>
Governmental Activity Capital Total				
Capital Assets - Net of Depreciation	<u>\$ 7,444,844</u>	<u>\$ (42,596)</u>	<u>\$ 4,738</u>	<u>\$ 7,397,510</u>
Business-type activities:				
<i>Capital assets being depreciated:</i>				
Buildings and improvements	\$ 539,312	\$ 9,821	\$ -	\$ 549,133
Land improvements	912,704	-	-	912,704
Machinery and equipment	85,500	485	-	85,985
Transportation equipment	693,197	78,575	-	771,772
Docks	<u>477,110</u>	<u>-</u>	<u>-</u>	<u>477,110</u>
Subtotal	<u>2,707,823</u>	<u>88,881</u>	<u>-</u>	<u>2,796,704</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(229,248)	(15,176)	-	(244,424)
Land improvements	(267,258)	(21,674)	-	(288,932)
Machinery and equipment	(54,623)	(10,990)	-	(65,613)
Transportation equipment	(308,581)	(112,574)	-	(421,155)
Docks	<u>(191,882)</u>	<u>(12,205)</u>	<u>-</u>	<u>(204,087)</u>
Subtotal	<u>(1,051,592)</u>	<u>(172,619)</u>	<u>-</u>	<u>(1,224,211)</u>
Net Capital Assets Being Depreciated	<u>1,656,231</u>	<u>(83,738)</u>	<u>-</u>	<u>1,572,493</u>
Business-type Activities Capital Assets, Net of Depreciation	<u>\$ 1,656,231</u>	<u>\$ (83,738)</u>	<u>\$ -</u>	<u>\$ 1,572,493</u>

NOTE 5 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:

Judicial	\$ 17,368
General Government	143,823
Public Safety	149,313
Health and Welfare	40,098
Recreation & Cultural	<u>10,513</u>

Total Governmental Activities \$ 361,115

A summary of changes in the component unit's capital assets are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets not being depreciated:</i>				
Land	\$ 258,755	\$ -	\$ -	\$ 258,755
Land and improvements	6,901,591	357,566	-	7,259,157
Right of ways	87,308	-	-	87,308
Construction in progress	<u>18,837</u>	<u>-</u>	<u>18,837</u>	<u>-</u>
Subtotal	<u>7,266,491</u>	<u>357,566</u>	<u>18,837</u>	<u>7,605,220</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	3,251,806	118,029	-	3,369,835
Road equipment	6,414,735	421,928	45,437	6,791,226
Shop equipment	231,539	10,292	798	241,033
Office equipment	79,855	8,862	-	88,717
Engineer's equipment	60,226	5,267	769	64,724
Yard and storage	194,224	-	-	194,224
Infrastructure – Roads	10,646,120	985,146	143,536	11,487,730
Infrastructure – Bridges	4,721,437	380,668	3,317	5,098,788
Depletable assets – Gravel pits	<u>27,085</u>	<u>-</u>	<u>-</u>	<u>27,085</u>
Subtotal	<u>25,627,027</u>	<u>1,930,192</u>	<u>193,857</u>	<u>27,363,362</u>
<i>Less accumulated depreciation:</i>				
Building	(665,355)	(150,456)	-	(815,811)
Road equipment	(5,109,755)	(544,657)	45,437	(5,608,975)
Shop equipment	(80,983)	(17,713)	399	(98,297)
Office equipment	(52,371)	(10,497)	-	(62,868)
Engineer's equipment	(55,925)	(2,496)	769	(57,652)
Yard and storage	(60,202)	(18,570)	-	(78,772)
Infrastructure – Roads	(4,143,211)	(429,445)	122,906	(4,449,750)
Infrastructure – Bridges	(1,553,479)	(104,783)	23,947	(1,634,315)
Depletable assets	<u>(15,332)</u>	<u>-</u>	<u>-</u>	<u>(15,332)</u>
Subtotal	<u>(11,736,613)</u>	<u>(1,278,617)</u>	<u>193,458</u>	<u>(12,821,772)</u>
Net Capital Assets Being Depreciated	<u>13,890,414</u>	<u>651,575</u>	<u>399</u>	<u>14,541,590</u>
Total Net Capital Assets	<u>\$ 21,156,905</u>	<u>\$ 1,009,141</u>	<u>\$ 19,236</u>	<u>\$ 22,146,810</u>

Depreciation and depletion expense was \$1,278,617.

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The County reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds, proprietary funds, and fiduciary funds. Interfund transactions resulting in interfund receivables and payable are as follows:

DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS	
	General Fund	Totals
Housing Commission	\$ 9,054	\$ 9,054
Other Funds	<u>43,659</u>	<u>43,659</u>
Total	<u>\$ 52,713</u>	<u>\$ 52,713</u>

ADVANCES FROM	ADVANCES TO	
	General Fund	Totals
Straits Regional Ride	<u>\$ 6,868</u>	<u>\$ 6,868</u>

Interfund Transfers

TRANSFERS IN	TRANSFERS OUT				
	General Fund	Revenue Sharing Reserve	Delinquent Tax	Other Funds	Totals
General Fund	\$ -	\$ 451,865	\$ 365,508	\$ 74,412	\$ 891,785
All Other	<u>655,036</u>	<u>-</u>	<u>30,000</u>	<u>-</u>	<u>685,036</u>
Total	<u>\$ 655,036</u>	<u>\$ 451,865</u>	<u>\$ 395,508</u>	<u>\$ 74,412</u>	<u>\$ 1,576,821</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 7 - LONG-TERM DEBT

County contractual agreements and installment purchase agreements are general obligations of the government.

Installment purchase agreements and contractual obligation activity can be summarized as follows for the year ended December 31, 2005:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Primary Government</u>					
Installment purchase contract with Citizens National Bank, maturing in fiscal 2007, with annual payments ranging from \$75,000 to \$140,000, plus interest ranging from 3.8% to 4.90%	\$ 400,000	\$ -	\$ 120,000	\$ 280,000	\$ 140,000
Installment purchase contract with GMAC, maturing in fiscal 2005, with monthly payments of \$548, including interest charged at 5.75%.	<u>2,167</u>	<u>-</u>	<u>2,167</u>	<u>-</u>	<u>-</u>
Total Primary Government Long-Term Debt	<u>\$ 402,167</u>	<u>\$ -</u>	<u>\$ 122,167</u>	<u>\$ 280,000</u>	<u>\$ 140,000</u>
<u>Component Unit</u>					
2004 MTF Bond	<u>\$ 3,060,000</u>	<u>\$ -</u>	<u>\$ 55,000</u>	<u>\$ 3,005,000</u>	<u>\$ 85,000</u>
Total Component Unit – Long-Term Debt	<u>\$ 3,060,000</u>	<u>\$ -</u>	<u>\$ 55,000</u>	<u>\$ 3,005,000</u>	<u>\$ 85,000</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End December 31</u>	<u>Governmental Activities</u>		<u>Component Unit</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 140,000	\$ 10,220	\$ 85,000	\$ 124,068
2007	140,000	3,430	85,000	121,518
2008	-	-	90,000	118,892
2009	-	-	90,000	116,192
2010	-	-	90,000	113,403
2011-2015	-	-	500,000	514,619
2016-2020	-	-	600,000	405,383
2021-2025	-	-	740,000	259,524,
2026-2029	<u>-</u>	<u>-</u>	<u>725,000</u>	<u>70,894</u>
Total	<u>\$ 280,000</u>	<u>\$ 13,650</u>	<u>\$ 3,005,000</u>	<u>\$ 1,844,493</u>

NOTE 7 - LONG-TERM DEBT (Continued)

A summary of vested benefits payable for the primary government and component unit at December 31, 2005 is as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
Vacation	\$ 128,508	\$ 19,675
Sick Leave	<u>137,563</u>	<u>310,690</u>
Totals	<u>\$ 266,071</u>	<u>\$ 330,365</u>

Vested Employee Benefits – Primary Government

Vacation is earned in varying amounts depending on the number of years of services of an employee and is made available to the employee at their anniversary date, not to exceed a total accumulation of 25 days for union employees, 25 days for administrative and nonunion supervisory employees. Vacation is payable at 100% to employees when they terminate employment.

Sick leave is accumulated at the rate of 1 day for each month of services, not to exceed a total accumulation of 45-100 days for court employees, 90 days for sheriff's department employees, and 30 days for all other employees.

Sick leave is payable at 50% at termination, retirement or death for the sheriff's department only.

Accrued Sick and Vacation – Component Unit

The accrued sick and vacation represents vested sick and vacation benefits due Road Commission employees upon termination of employment with the Road Commission. The balance at December 31, 2005, is \$310,690 for sick, and \$19,675 for vacations. All amounts vested have been accrued on the government-wide statements.

NOTE 8 - RISK MANAGEMENT
Primary Government

The County participates as a member in the Michigan Municipal Risk Management Authority (the "Authority"). The Authority is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the Authority is to administer a risk management fund, which provides members with loss protection for general and auto liability, motor vehicle physical damage and property.

The authority has entered into reinsurance agreements providing for loss coverage in excess of the amounts to be retained by the Authority and individual members.

In the event a reinsurance company does not meet its obligation to the Authority, responsibility for payment of any unreimbursed claims will be that of the Authority Reinsurance Fund.

NOTE 8 - RISK MANAGEMENT (Continued)

The Authority has retained certain levels of risk rather than obtaining coverage through reinsurance agreements. The Authority established the Authority Reinsurance Fund in order to participate in the reinsurance agreements. Individual members are provided the same level of coverage previously afforded through a combination of the reinsurance agreements and the Reinsurance Fund. In addition, the Authority purchases insurance for certain risks not covered by the reinsurance agreements.

The reinsurance agreements discussed above include provisions for minimum annual premiums. As of December 31, 2005, the Authority had met the minimum requirements.

The County is a “state pool member” for the self-insured retention portion of liabilities and as such pays deductibles of only \$250 per vehicle and \$150 per occurrence for property and crime coverage. The County’s annual MMRMA premium includes a fee to participate as a “state pool member” for self-insured retention.

The County has transferred the risk of loss for workers’ compensation and health insurance via the purchase of commercial insurance policies. Settled claims have not exceeded coverage in any of the past three fiscal years.

Component Unit

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan, which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Cheboygan County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also a member of the County Road Association Self-Insurance Fund for worker’s compensation self-insurance. The fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the fund.

NOTE 8 - RISK MANAGEMENT (Continued)

The Road Commission continues to carry commercial insurance for employees health and accident insurance, but has opted to participate in a self-insurance program that bases premiums on the Road Commission experience and provides for stop loss coverage. Premiums are adjusted every three months.

NOTE 9 - CONTINGENT LIABILITIES

The County has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the County. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the County at December 31, 2005.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMSDescription of Plan and Plan Assets – Primary Government

The County is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplies by the sum of 2.0% times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2004.

MERS was organized pursuant to Section 12A of Act #156, Public Acts of 1851 (MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the County's competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The County is required to contribute at an actuarially determined rate.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Annual Pension Cost

During the year ended December 31, 2005, the County's contributions totaling \$356,436 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2003. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases. The unfunded actuarial liability is amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, follows:

	2002	2003	2004
Actuarial Value of Assets	\$ 8,780,989	\$ 9,610,030	\$ 10,368,117
Actuarial Accrued Liability	9,811,927	10,560,012	12,154,129
Unfunded AAL	1,030,938	949,982	1,786,012
Funded Ratio	89%	91%	85%
Covered Payroll	3,545,329	3,551,184	3,980,598
UAAL as a Percentage of Covered Payroll	29%	27%	45%

Three Year Trend Information			
Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2003	\$ 264,155	100%	\$ 0
2004	311,922	100%	0
2005	356,436	100%	0

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)Plan Description – Component Unit

The Cheboygan County Road Commission participates in the Michigan Municipal Employees Retirement System (MERS); a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Act of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The plan adopted by the Board of County Road Commissioners requires general employees to contribute 4.36% of their annual compensation with 0% to 2% required for salaried and supervisory employees. The Road Commission is required to contribute at an actuarially determined rate; the weighted average rate for 2005 was 16.79% for general employees, 43.16% for salaried employees. The contribution requirements of plan members and the Road Commission are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

Annual Pension Cost

For the year ended December 31, 2005, the Road Commission's annual pension cost of \$450,355 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years for positive unfunded liabilities and 10 years for negative unfunded liabilities.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

	2002	2003	2004
Actuarial Value of Assets	\$ 7,669,330	\$ 8,117,500	\$ 8,527,856
Actuarial Accrued Liability	11,695,052	12,858,596	13,782,867
Unfunded AAL	4,025,722	4,741,096	5,255,011
Funded Ratio	66%	63%	62%
Covered Payroll	1,934,672	1,866,822	1,937,668
UAAL as a Percentage of Covered Payroll	208%	254%	271%

Three Year Trend Information			
Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2003	\$ 450,361	100%	\$ 0
2004	432,047	100%	0
2005	450,355	100%	0

NOTE 11 - POSTEMPLOYMENT BENEFITS

Component Unit

In addition to the pension benefits described in Note 10, the Cheboygan County Road Commission provides postemployment health care to eligible employees who retire from the Road Commission on or after attaining retirement age with at least ten years of service. Expenditures for postemployment health care benefits are recognized on a pay-as-you-go basis. For the year ended December 31, 2005 these costs amounted to approximately \$419,976 with 35 eligible participants.

NOTE 12 - LEASES

Capital Leases – The County leases a Dodge Pick-up under capital lease with yearly lease payment of \$5,291, including an interest rate of 5.75% – 9.0%. The lease qualifies as capital leases for accounting purposes and therefore have been recorded at the present value of future minimum lease payments as of the inception date. The future minimum lease obligations and the net present values are as follows:

2006	\$ 5,291
2007	<u>1,323</u>
Total minimum lease payments	6,614
Less amount representing interest	<u>277</u>
Present value of minimum lease payment	<u><u>\$ 6,337</u></u>

NOTE 13 - NET ASSETS RESTRICTED/FUND EQUITY RESERVES:

Net assets restrictions/fund equity reserve can be described as follows:

General Fund	\$ 6,868	Reserved for Advance to Straits Regional Ride
Revenue Sharing Reserve	2,965,074	Reserved for Revenue Sharing
Marina	342,206	Restricted for Construction
Delinquent Tax	2,852	Restricted for Tax Administration

Required Supplemental Information

County of Cheboygan, Michigan

Required Supplemental Information Budgetary Comparison Schedule General Fund Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 5,671,365	\$ 5,671,365	\$ 5,573,434	\$ (97,931)
Licenses & Permits	72,450	72,450	76,702	4,252
Federal Sources	237,844	376,799	271,965	(104,834)
State Sources	610,675	613,490	640,782	27,292
Local Sources	82,500	82,500	90,781	8,281
Charges for Services	1,234,280	1,237,780	1,278,404	40,624
Fines & Penalties	45,000	45,000	48,719	3,719
Refunds & Reimbursements	193,695	193,695	219,374	25,679
Interest & Rentals	25,000	25,000	139,416	114,416
Other Revenue	11,150	11,150	5,809	(5,341)
TOTAL REVENUES	8,183,959	8,329,229	8,345,386	16,157
EXPENDITURES:				
Legislative:				
Board of Commissioners	144,536	141,036	123,150	17,886
Judicial:				
Circuit Court	357,389	357,649	333,250	24,399
District Court	500,645	496,560	476,336	20,224
Victim's Rights	47,910	47,545	47,545	-
Jury Board	7,900	7,900	7,148	752
Probate Court	620,817	628,944	608,153	20,791
Juvenile Accountability	-	17,545	11,375	6,170
Total Judicial	1,534,661	1,556,143	1,483,807	72,336
General Government:				
Elections	4,800	11,300	10,266	1,034
Finance	124,441	125,433	119,379	6,054
Administrative Office	169,979	190,129	177,133	12,996
County Clerk/Register of Deeds	333,361	333,361	328,309	5,052
Equalization	271,712	276,403	273,270	3,133
Prosecuting Attorney	481,928	486,514	461,573	24,941
Treasurer	210,462	210,462	203,059	7,403
Maintenance	515,471	526,169	525,267	902
Major Equipment & Building	166,553	126,555	82,582	43,973
Drain Commission	2,625	3,125	2,406	719
County Surveyor	750	750	750	-
MSU Extension	92,812	93,144	92,607	537
Soil Conservation	15,292	15,292	15,062	230
General	400,560	401,386	350,619	50,767
Total General Government	2,790,746	2,800,023	2,642,282	157,741

County of Cheboygan, Michigan

Required Supplemental Information Budgetary Comparison Schedule General Fund Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public Safety:				
Sheriff	\$ 930,329	\$ 1,023,471	\$ 1,003,923	\$ 19,548
ORV Enforcement	18,068	18,068	12,507	5,561
CCE 911	371,246	371,246	371,245	1
Marine Safety	86,741	86,741	79,470	7,271
Snowmobile Safety	25,700	25,700	25,156	544
Secondary Road Patrol	134,870	134,870	134,811	59
Stonegarden	-	8,427	8,425	2
Local Grants	8,120	8,120	4,916	3,204
Federal Grants	-	8,695	8,075	620
Corrections/Communications	1,180,148	1,208,684	1,172,150	36,534
Planning & Zoning	226,349	243,217	238,589	4,628
HSGP Block Grant	140,482	203,884	200,200	3,684
Solutions Area Planner	-	8,369	8,369	-
Emergency Services	20,000	29,534	29,533	1
LEPC	1,000	1,000	283	717
Homeland Security Training	-	32,517	8,528	23,989
Animal Control	111,032	111,602	111,599	3
Total Public Safety	3,254,085	3,524,145	3,417,779	106,366
Health & Welfare:				
Ambulance	70,000	70,000	70,000	-
Health Department	229,351	229,351	228,941	410
Mental Health	111,995	111,995	111,995	-
Medical Examiner	14,035	43,035	42,929	106
Veterans Services	95,200	92,650	90,721	1,929
Housing	84,974	84,974	84,874	100
Total Health & Welfare	605,555	632,005	629,460	2,545
Recreation & Culture:				
Airport	57,500	57,500	56,861	639
Other Expenditures:				
NEMCOG	7,022	7,022	7,022	-
Insurance	154,730	154,730	132,878	21,852
Other Miscellaneous	233,100	15,201	1,945	13,256
Total Other Expenditures	394,852	176,953	141,845	35,108
TOTAL EXPENDITURES	8,781,935	8,887,805	8,495,184	392,621
EXCESS OF REVENUES OVER EXPENDITURES	(597,976)	(558,576)	(149,798)	408,778
OTHER FINANCING SOURCES (USES):				
Transfers In	1,332,360	1,332,360	891,785	(440,575)
Transfers Out	(734,384)	(773,784)	(655,036)	118,748
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	86,951	\$ 86,951
FUND BALANCE, JANUARY 1			1,830,770	
FUND BALANCE, DECEMBER 31			\$ 1,917,721	

County of Cheobygan, Michigan

Required Supplemental Information Budgetary Comparison Schedule Revenue Sharing Reserve Fund Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ -	\$ 1,830,000	\$ 1,835,892	\$ 5,892
Other Revenue	-	-	29,526	29,526
 TOTAL REVENUES	-	1,830,000	1,865,418	35,418
 EXCESS OF REVENUES (EXPENDITURES)	-	1,830,000	1,865,418	35,418
 OTHER FINANCING SOURCES (USES):				
Transfers Out	-	(1,830,000)	(451,865)	1,378,135
 EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	1,413,553	<u>\$ 1,413,553</u>
 FUND BALANCE, JANUARY 1			1,551,521	
 FUND BALANCE, DECEMBER 31			<u>\$ 2,965,074</u>	

County of Cheboygan, Michigan

Required Supplemental Information Budgetary Comparison Schedule Housing Commission Fund Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Federal Sources	\$ 214,411	\$ 214,411	\$ -	\$ (214,411)
State Sources	303,600	303,600	-	(303,600)
Interest & Rentals	600	600	1,493	893
Other Revenue	31,000	107,800	71,076	(36,724)
TOTAL REVENUES	549,611	626,411	72,569	(553,842)
EXPENDITURES:				
Health & Welfare	647,445	761,445	79,533	681,912
TOTAL EXPENDITURES	647,445	761,445	79,533	681,912
EXCESS (DEFICINECY) OF REVENUES OVER EXPENDITURES	(97,834)	(135,034)	(6,964)	128,070
OTHER FINANCING SOURCES (USES):				
Transfers In	57,445	57,445	-	(57,445)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ (40,389)	\$ (77,589)	(6,964)	\$ 70,625
FUND BALANCE, JANUARY 1			132,393	
FUND BALANCE, DECEMBER 31			\$ 125,429	

Other Supplemental Information

County of Cheboygan, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2005

	Special Revenue Funds								
	Family Counseling	Termination Liability	PA 302 Training	Public Act 106	Probation Enhancement	Victim's Restitution	Remonumentation Grant	Gypsy Moth	Jaws of Life
ASSETS:									
Cash & Cash Equivalents - Unrestricted	\$ 5,156	\$ 94,175	\$ 9,256	\$ -	\$ 15,956	\$ 5,315	\$ -	\$ 31,600	\$ 15,246
Receivables:									
Accounts	-	-	-	-	50	-	-	-	-
Taxes	-	-	-	-	-	-	-	-	-
Due from Governmental Units	-	-	-	-	-	-	16,270	-	-
TOTAL ASSETS	\$ 5,156	\$ 94,175	\$ 9,256	\$ -	\$ 16,006	\$ 5,315	\$ 16,270	\$ 31,600	\$ 15,246
LIABILITIES:									
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ 41	\$ -	\$ -	\$ -	\$ -
Accrued Liabilities	-	-	-	-	-	-	-	-	-
Due to Other Funds	-	-	-	-	-	-	16,270	-	-
Due to Governmental Units	-	-	-	-	-	-	-	-	-
Deferred Revenue	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	-	-	-	-	41	-	16,270	-	-
FUND BALANCES:									
Unreserved									
Designated for subsequent year's expenditures	-	-	600	-	-	5,000	-	10,000	-
Undesignated	5,156	94,175	8,656	-	15,965	315	-	21,600	15,246
TOTAL FUND BALANCES	5,156	94,175	9,256	-	15,965	5,315	-	31,600	15,246
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,156	\$ 94,175	\$ 9,256	\$ -	\$ 16,006	\$ 5,315	\$ 16,270	\$ 31,600	\$ 15,246

County of Cheboygan, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2005

	Special Revenue Funds								
	Community Projects	SANE	Friend of the Court	Maps Project	Cellular Phone	911 4% Surcharge	Public Improvement	Building Department	Register of Deeds Automation
ASSETS:									
Cash & Cash Equivalents - Unrestricted	\$ 1,853	\$ -	\$ -	\$ 1,130	\$ -	\$ 23,085	\$ 9,697	\$ 180,032	\$ 100,369
Receivables:									
Accounts	-	-	-	-	-	11,650	-	-	-
Taxes	-	-	-	-	-	-	-	-	-
Due from Governmental Units	-	14,458	110,507	-	-	-	-	-	-
TOTAL ASSETS	<u>\$ 1,853</u>	<u>\$ 14,458</u>	<u>\$ 110,507</u>	<u>\$ 1,130</u>	<u>\$ -</u>	<u>\$ 34,735</u>	<u>\$ 9,697</u>	<u>\$ 180,032</u>	<u>\$ 100,369</u>
LIABILITIES:									
Accounts Payable	\$ -	\$ -	\$ 1,921	\$ -	\$ -	\$ 34,735	\$ -	\$ 1,123	\$ -
Accrued Liabilities	-	1,078	5,764	-	-	-	-	4,409	-
Due to Other Funds	-	219	27,092	-	-	-	-	-	-
Due to Governmental Units	-	-	-	-	-	-	-	-	-
Deferred Revenue	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>1,297</u>	<u>34,777</u>	<u>-</u>	<u>-</u>	<u>34,735</u>	<u>-</u>	<u>5,532</u>	<u>-</u>
FUND BALANCES:									
Unreserved									
Designated for subsequent year's expenditures	-	-	-	-	-	-	9,697	46,600	-
Undesignated	1,853	13,161	75,730	1,130	-	-	-	127,900	100,369
TOTAL FUND BALANCES	<u>1,853</u>	<u>13,161</u>	<u>75,730</u>	<u>1,130</u>	<u>-</u>	<u>-</u>	<u>9,697</u>	<u>174,500</u>	<u>100,369</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,853</u>	<u>\$ 14,458</u>	<u>\$ 110,507</u>	<u>\$ 1,130</u>	<u>\$ -</u>	<u>\$ 34,735</u>	<u>\$ 9,697</u>	<u>\$ 180,032</u>	<u>\$ 100,369</u>

County of Cheboygan, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2005

	Special Revenue Funds								
	Disaster Contingency	Local Officer Training	Law Library	Veteran's Assistance	SAYPA Program	Senior Citizen's Millage	Social Services Medical	Department of Human Services	Child Care
ASSETS:									
Cash & Cash Equivalents - Unrestricted	\$ 10,000	\$ 4,021	\$ 2,328	\$ 1,843	\$ 38,622	\$ 928	\$ 6,148	\$ 15,000	\$ 19,608
Receivables:									
Accounts	-	-	-	-	-	-	-	19,695	-
Taxes	-	-	-	-	-	526,278	-	-	-
Due from Governmental Units	-	-	-	-	14,509	-	-	-	23,457
TOTAL ASSETS	\$ 10,000	\$ 4,021	\$ 2,328	\$ 1,843	\$ 53,131	\$ 527,206	\$ 6,148	\$ 34,695	\$ 43,065
LIABILITIES:									
Accounts Payable	\$ -	\$ -	\$ 1,123	\$ 240	\$ 1,698	\$ -	\$ -	\$ -	\$ -
Accrued Liabilities	-	-	-	-	455	-	-	-	-
Due to Other Funds	-	-	-	-	-	-	-	78	-
Due to Governmental Units	-	-	-	-	-	-	-	34,000	1,613
Deferred Revenue	-	-	-	-	-	526,278	-	-	-
TOTAL LIABILITIES	-	-	1,123	240	2,153	526,278	-	34,078	1,613
FUND BALANCES:									
Unreserved									
Designated for subsequent year's expenditures	-	-	-	-	22,000	-	-	-	-
Undesignated	10,000	4,021	1,205	1,603	28,978	928	6,148	617	41,452
TOTAL FUND BALANCES	10,000	4,021	1,205	1,603	50,978	928	6,148	617	41,452
TOTAL LIABILITIES AND FUND BALANCES	\$ 10,000	\$ 4,021	\$ 2,328	\$ 1,843	\$ 53,131	\$ 527,206	\$ 6,148	\$ 34,695	\$ 43,065

County of Cheboygan, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2005

	Special Revenue Funds							Capital Project Fund	
	Veteran's Trust	Senior Citizens Busing	Probate Court	Courthouse Preservation	F.I.A. Building	CCE 911 Capital	County Fair	Inverness Sewer	Totals
ASSETS:									
Cash & Cash Equivalents - Unrestricted	\$ 506	\$ -	\$ 7,361	\$ 166,665	\$ 71,983	\$ 2	\$ 12,022	\$ -	\$ 849,907
Receivables:									
Accounts	-	-	-	-	-	-	-	-	31,395
Taxes	-	-	-	-	-	-	-	-	526,278
Due from Governmental Units	-	-	-	-	-	-	-	-	179,201
TOTAL ASSETS	<u>\$ 506</u>	<u>\$ -</u>	<u>\$ 7,361</u>	<u>\$ 166,665</u>	<u>\$ 71,983</u>	<u>\$ 2</u>	<u>\$ 12,022</u>	<u>\$ -</u>	<u>\$ 1,586,781</u>
LIABILITIES:									
Accounts Payable	\$ -	\$ -	\$ -	\$ 1,899	\$ -	\$ -	\$ -	\$ -	\$ 42,780
Accrued Liabilities	-	-	-	-	-	-	-	-	11,706
Due to Other Funds	-	-	-	-	-	-	-	-	43,659
Due to Governmental Units	-	-	-	-	-	-	-	-	35,613
Deferred Revenue	-	-	-	-	-	-	-	-	526,278
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,899</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>660,036</u>
FUND BALANCES:									
Unreserved									
Designated for subsequent year's expenditures	-	-	-	-	12,103	-	-	-	106,000
Undesignated	506	-	7,361	164,766	59,880	2	12,022	-	820,745
TOTAL FUND BALANCES	<u>506</u>	<u>-</u>	<u>7,361</u>	<u>164,766</u>	<u>71,983</u>	<u>2</u>	<u>12,022</u>	<u>-</u>	<u>926,745</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 506</u>	<u>\$ -</u>	<u>\$ 7,361</u>	<u>\$ 166,665</u>	<u>\$ 71,983</u>	<u>\$ 2</u>	<u>\$ 12,022</u>	<u>\$ -</u>	<u>\$ 1,586,781</u>

County of Cheboygan, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds Year Ended December 31, 2005

	Special Revenue Funds								
	Family Counseling	Termination Liability	PA 302 Training	Public Act 106	Probation Enhancement	Victim's Restitution	Remonumentation Grant	Gypsy Moth	Jaws of Life
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Sources	-	-	-	-	-	-	-	-	-
State Sources	-	-	4,720	148,824	-	-	93,244	-	-
Local Sources	-	-	-	-	-	-	-	-	-
Charges for Services	-	-	-	-	-	-	-	-	-
Contributions	-	-	-	-	-	-	-	-	-
Fines & Penalties	-	-	-	-	3,520	-	-	-	-
Interest & Rentals	-	175	-	-	-	-	-	-	-
Other Revenues	2,925	-	-	-	-	-	-	-	-
TOTAL REVENUES	2,925	175	4,720	148,824	3,520	-	93,244	-	-
EXPENDITURES:									
Judicial	5,895	-	-	-	-	-	-	-	-
General Government	-	21,136	-	74,412	-	-	117,107	-	-
Public Safety	-	-	4,162	-	1,639	-	-	-	-
Health & Welfare	-	-	-	-	-	-	-	-	-
Recreation & Culture	-	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	5,895	21,136	4,162	74,412	1,639	-	117,107	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,970)	(20,961)	558	74,412	1,881	-	(23,863)	-	-
OTHER FINANCING SOURCES (USES):									
Bond Proceeds	-	-	-	-	-	-	-	-	-
Transfers In	-	30,000	-	-	-	-	-	-	3,500
Transfers Out	-	-	-	(74,412)	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(2,970)	9,039	558	-	1,881	-	(23,863)	-	3,500
FUND BALANCES, January 1	8,126	85,136	8,698	-	14,084	5,315	23,863	31,600	11,746
FUND BALANCES, December 31	\$ 5,156	\$ 94,175	\$ 9,256	\$ -	\$ 15,965	\$ 5,315	\$ -	\$ 31,600	\$ 15,246

County of Cheboygan, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds Year Ended December 31, 2005

	Special Revenue Funds								
	Community Projects	SANE	Friend of the Court	Maps Project	Cellular Phone	911 4% Surcharge	Public Improvement	Building Department	Register of Deeds Automation
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Sources	-	32,680	282,881	-	-	-	-	-	-
State Sources	600	32,680	-	-	-	-	-	-	-
Local Sources	-	-	32,643	-	-	-	-	-	-
Charges for Services	-	-	22,098	-	-	-	-	432,956	-
Contributions	1,614	-	-	-	-	-	-	-	-
Fines & Penalties	-	-	-	-	-	-	-	-	-
Interest & Rentals	-	-	-	-	-	-	-	-	1,941
Other Revenues	-	-	-	-	99,248	129,181	-	571	-
TOTAL REVENUES	2,214	65,360	337,622	-	99,248	129,181	-	433,527	1,941
EXPENDITURES:									
Judicial	-	-	386,634	-	-	-	-	-	-
General Government	-	-	-	51,871	-	-	-	-	3,653
Public Safety	1,577	67,092	-	-	99,248	129,188	-	388,590	-
Health & Welfare	-	-	-	-	-	-	-	-	-
Recreation & Culture	-	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	1,577	67,092	386,634	51,871	99,248	129,188	-	388,590	3,653
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	637	(1,732)	(49,012)	(51,871)	-	(7)	-	44,937	(1,712)
OTHER FINANCING SOURCES (USES):									
Bond Proceeds	-	-	-	-	-	-	-	-	-
Transfers In	-	-	-	53,000	-	-	-	-	49,950
Transfers Out	-	-	-	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	637	(1,732)	(49,012)	1,129	-	(7)	-	44,937	48,238
FUND BALANCES, January 1	1,216	14,893	124,742	1	-	7	9,697	129,563	52,131
FUND BALANCES, December 31	\$ 1,853	\$ 13,161	\$ 75,730	\$ 1,130	\$ -	\$ -	\$ 9,697	\$ 174,500	\$ 100,369

County of Cheboygan, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds Year Ended December 31, 2005

	Special Revenue Funds								
	Disaster Contingency	Local Officer Training	Law Library	Veteran's Assistance	SAYPA Program	Senior Citizen's Millage	Social Services Medical	Department of Human Services	Child Care
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 499,200	\$ -	\$ -	\$ -
Federal Sources	-	-	-	-	112,680	-	-	-	-
State Sources	-	-	-	-	-	-	-	203,865	277,987
Local Sources	-	-	-	-	-	-	-	-	-
Charges for Services	-	4,021	-	-	-	-	12,125	-	7,143
Contributions	-	-	-	4,948	-	-	-	-	-
Fines & Penalties	-	-	-	-	-	-	-	-	-
Interest & Rentals	-	-	-	-	-	3,247	-	-	-
Other Revenues	-	-	3,500	-	70,586	-	-	-	-
TOTAL REVENUES	-	4,021	3,500	4,948	183,266	502,447	12,125	203,865	285,130
EXPENDITURES:									
Judicial	-	-	15,550	-	-	-	-	-	-
General Government	-	-	-	-	-	-	-	-	-
Public Safety	-	-	-	-	-	-	-	-	-
Health & Welfare	-	-	-	6,377	155,198	502,590	24,131	203,920	689,085
Recreation & Culture	-	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	-	-	15,550	6,377	155,198	502,590	24,131	203,920	689,085
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	4,021	(12,050)	(1,429)	28,068	(143)	(12,006)	(55)	(403,955)
OTHER FINANCING SOURCES (USES):									
Bond Proceeds	-	-	-	-	-	-	-	-	-
Transfers In	-	-	12,100	2,550	-	-	12,883	-	450,000
Transfers Out	-	-	-	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	-	4,021	50	1,121	28,068	(143)	877	(55)	46,045
FUND BALANCES, January 1	10,000	-	1,155	482	22,910	1,071	5,271	672	(4,593)
FUND BALANCES, December 31	\$ 10,000	\$ 4,021	\$ 1,205	\$ 1,603	\$ 50,978	\$ 928	\$ 6,148	\$ 617	\$ 41,452

County of Cheboygan, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds Year Ended December 31, 2005

	Special Revenue Funds							Capital Project Fund	
	Veteran's Trust	Senior Citizens Busing	Probate Court	Courthouse Preservation	F.I.A. Building	CCE 911 Capital	County Fair	Inverness Sewer	Totals
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 499,200
Federal Sources	-	-	-	-	-	-	-	-	428,241
State Sources	11,556	24,271	-	-	-	-	-	-	797,747
Local Sources	-	-	-	-	-	-	-	-	32,643
Charges for Services	-	-	9,418	-	-	-	186,416	-	674,177
Contributions	-	-	-	-	-	-	-	-	6,562
Fines & Penalties	-	-	-	24,687	-	-	-	-	28,207
Interest & Rentals	-	-	-	-	1,420	-	-	-	6,783
Other Revenues	-	-	-	-	204,867	-	-	-	510,878
TOTAL REVENUES	11,556	24,271	9,418	24,687	206,287	-	186,416	-	2,984,438
EXPENDITURES:									
Judicial	-	-	18,059	5,248	-	-	-	-	431,386
General Government	-	-	-	-	-	-	-	-	268,179
Public Safety	-	-	-	-	-	-	-	-	691,496
Health & Welfare	11,086	24,271	-	-	73,000	-	-	-	1,689,658
Recreation & Culture	-	-	-	-	-	-	201,122	-	201,122
Capital Outlay	-	-	-	26,951	-	35,231	-	70,991	133,173
Debt Service	-	-	-	-	136,460	-	-	50,000	186,460
TOTAL EXPENDITURES	11,086	24,271	18,059	32,199	209,460	35,231	201,122	120,991	3,601,474
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	470	-	(8,641)	(7,512)	(3,173)	(35,231)	(14,706)	(120,991)	(617,036)
OTHER FINANCING SOURCES (USES):									
Bond Proceeds	-	-	-	-	-	-	-	120,276	120,276
Transfers In	-	-	-	-	-	21,061	6,000	-	641,044
Transfers Out	-	-	-	-	-	-	-	-	(74,412)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	470	-	(8,641)	(7,512)	(3,173)	(14,170)	(8,706)	(715)	69,872
FUND BALANCES, January 1	36	-	16,002	172,278	75,156	14,172	20,728	715	856,873
FUND BALANCES, December 31	\$ 506	\$ -	\$ 7,361	\$ 164,766	# \$ 71,983	# \$ 2	\$ 12,022	\$ -	\$ 926,745

County of Cheboygan, Michigan

Combining Statement of Net Assets Nonmajor Enterprise Funds December 31, 2005

	Tax Foreclosure	Straits Regional Ride	Jail Commissary	Totals
ASSETS:				
Cash & Cash Equivalents - Unrestricted	\$ 518,763	\$ 73,593	\$ 3,439	\$ 595,795
Receivables:				
Accounts	-	5,346	-	5,346
Total Current Assets	518,763	78,939	3,439	601,141
Capital Assets - Net	-	359,284	-	359,284
TOTAL ASSETS	\$ 518,763	\$ 438,223	\$ 3,439	\$ 960,425
LIABILITIES:				
Current Liabilities:				
Accounts Payable	\$ -	\$ 84,016	\$ 207	\$ 84,223
Advance from Other Funds	-	6,868	-	6,868
Accrued Liabilities	7,711	-	-	7,711
TOTAL LIABILITIES	7,711	90,884	207	98,802
NET ASSETS:				
Invested in Capital Assets (net of related debt)	-	359,284	-	359,284
Unrestricted (Deficit)	511,052	(11,945)	3,232	502,339
TOTAL NET ASSETS	511,052	347,339	3,232	861,623
TOTAL LIABILITIES AND NET ASSETS	\$ 518,763	\$ 438,223	\$ 3,439	\$ 960,425

County of Cheboygan, Michigan

Combining Statement of Revenues, Expenses, and Changes in Net Assets - Nonmajor Enterprise Funds Year Ended December 31, 2005

	Tax Foreclosure	Straits Regional Ride	Jail Commissary	Totals
OPERATING REVENUES:				
Federal Revenue - Operations	\$ -	\$ 29,627	\$ -	\$ 29,627
State Revenue - Operations	-	210,211	-	210,211
Charges for Services	259,400	230,429	4,633	494,462
TOTAL OPERATING REVENUES	259,400	470,267	4,633	734,300
OPERATING EXPENSES:				
Other Expenses	111,188	630,826	5,813	747,827
TOTAL OPERATING EXPENSES	111,188	630,826	5,813	747,827
OPERATING INCOME (LOSS)	148,212	(160,559)	(1,180)	(13,527)
NON-OPERATING REVENUES:				
Interest on Deposits	8,289	-	-	8,289
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	156,501	(160,559)	(1,180)	(5,238)
Capital Grants - Federal	-	64,562	-	64,562
Capital Grants - State	-	16,140	-	16,140
Transfers In	-	43,992	-	43,992
CHANGE IN NET ASSETS	156,501	(35,865)	(1,180)	119,456
NET ASSETS, January 1	354,551	383,204	4,412	742,167
NET ASSETS, December 31	\$ 511,052	\$ 347,339	\$ 3,232	\$ 861,623

County of Cheboygan, Michigan

Combining Statement of Cash Flows Nonmajor Enterprise Funds Year Ended December 31, 2005

	Tax Foreclosures	Straits Regional Ride	Jail Commissary	Totals
Cash Flows From Operating Activities:				
Cash Received From Customers or Users	\$ 259,400	\$ 520,809	\$ 4,633	\$ 784,842
Cash Payments to Suppliers	(103,477)	(543,936)	(6,120)	(653,533)
Net Cash Provided (Used) by Operating Activities	155,923	(23,127)	(1,487)	131,309
Cash Flows from Investing Activities:				
Interest on Deposits	8,289	-	-	8,289
Net Cash Provided (Used) by Investing Activities	8,289	-	-	8,289
Cash Flows From Capital Financing Activities:				
Purchases of Capital Assets	-	(78,575)	-	(78,575)
Capital Grants - Federal	-	64,562	-	64,562
Capital Grants - State	-	16,140	-	16,140
Net Cash Provided (Used) by Capital Financing Activities	-	2,127	-	2,127
Cash Flows From Noncapital Financing Activities:				
Transfers In	-	43,992	-	43,992
Cash Provided (Used) by Noncapital Financing Activities	-	43,992	-	43,992
Net Increase (Decrease) in Cash and Cash Equivalents	164,212	22,992	(1,487)	185,717
Cash and Cash Equivalents - Beginning of Year	354,551	50,601	4,926	410,078
Cash and Cash Equivalents - End of Year	\$ 518,763	\$ 73,593	\$ 3,439	\$ 595,795
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating Income (Loss)	\$ 148,212	\$ (160,559)	\$ (1,180)	\$ (13,527)
Non-cash and Other Non-operating Expenses				
Depreciation Expense	-	117,130	-	117,130
Decrease (Increase) in Assets:				
Accounts Receivable	-	50,542	-	50,542
Increase (Decrease) in Liabilities:				
Accounts Payable	-	45,177	(307)	44,870
Due to Other Funds	-	(75,417)	-	(75,417)
Accrued Liabilities	7,711	-	-	7,711
Net Cash Provided (Used) by Operating Activities	\$ 155,923	\$ (23,127)	\$ (1,487)	\$ 131,309

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Chairperson and Members of
The Board of Commissioners
County of Cheboygan, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Cheboygan, Michigan as of and for the year ended December 31, 2005, which collectively comprise the County of Cheboygan, Michigan's basic financial statements and have issued our report thereon, dated March 31, 2006. We did not audit the financial statements of the Cheboygan County Road Commission, which represent 100% of the assets and revenues of the Discretely Presented Component Unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, is so far as it relates to the amounts recorded for the Road Commission, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County of Cheboygan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weakness.

Honorable Chairperson and Members
of the Board of Commissioners
County of Cheboygan, Michigan

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Cheboygan, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

March 31, 2006



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Chairperson and Members of
The Board of Commissioners
County of Cheboygan, Michigan

Compliance

We have audited the compliance of the County of Cheboygan, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County of Cheboygan, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Honorable Chairperson and Members
of the Board of Commissioners
County of Cheboygan, Michigan

Internal Control Over Compliance

The management of the County of Cheboygan, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County of Cheboygan, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

March 31, 2006

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2005

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. DEPARTMENT OF JUSTICE:			
Pass-through programs from Michigan Department of Community Health			
Substance Abuse - SANE	16.579	70868-6-04-B	\$ 25,451
Substance Abuse - SANE	16.579	70868-7-06-B	7,229
Subtotal - passed through Michigan Department of Community Health			32,680
Pass-through programs from the Michigan Department of Human Services			
Juvenile Accountability Incentive Block Grant - 02/01/04 to 01/31/05	16.523	JABGN-04-16001	5,365
Juvenile Accountability Incentive Block Grant - 02/01/05 to 01/31/06	16.523	JABGN-05-16001	6,418
Subtotal - Michigan Department of Human Services			11,783
Total U.S. Department of Justice			44,463
U.S. DEPARTMENT OF EDUCATION:			
Passed through the Michigan Department of Community Health			
Drug free schools and local programs - SAYPA programs	84.186	2005-1620	71,672
Drug free schools and local programs - SAYPA programs	84.186	2006-1620	21,192
Subtotal - U.S. Department of Education			92,864
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Award:			
Rural Development Loan Proceeds	10.760	-	120,276
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through programs from the Michigan Department of State Police, Emergency Management Division:			
Enforcement Zone Grant	20.600	PT-05-87	4,806
Enforcement Zone Grant	20.602	PT-05-87	3,269
HEMP Grant 2004-2005	20.503	-	724
Subtotal - passed through from Michigan Department of State Police, Emergency Management Division			8,799
Pass-through programs from the Michigan Department of Transportation:			
Road Projects - State Administered	20.205	-	628,557
Operating Grant - Section 5311	20.509	2002-0028/Z13	29,627
Federal Transit Capital Improvement Grant	20.500	2002-0028/Z11	64,562
Subtotal - passed through from Michigan Department of Transportation			722,746
Total U.S. Department of Transportation			731,545
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through programs from the Michigan Department of Human Services:			
Promoting safe & stable families - SAYPA program	93.556	DEL-04-16001	14,668
Promoting safe & stable families - SAYPA program	93.556	DEL-04-16001	5,148
Incentive Reimbursement	93.560	-	37,657
PA CRP Title IV-D - 10/1/04 to 9/30/05	93.563	CS/PA-05-16002	43,785
PA CRP Title IV-D - 10/1/05 to 9/30/06	93.563	CS/PA-06-16002	17,618
FOC CRP Title IV-D - 10/1/04 to 9/30/05	93.563	CS/FOC-05-16001	166,768
FOC CRP Title IV-D - 10/1/04 to 9/30/05	93.563	CS/FOC-06-16002	70,872
Medical Support Title IV-D - 10/1/04 to 9/30/05	93.563	CS/MED-05-83001	7,584
Subtotal - Michigan Department of Human Services			364,100
Total U.S. Department of Health and Human Services			364,100
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through programs from the Michigan Department of State Police, Emergency Management Division:			
Emergency Management Performance Grants 10/01/04-09/30/05	97.042	-	10,276
Part II Critical Infrastructure Protection - Stonegarden	97.004	-	8,427
2004 State Homeland Security Grant Program	97.004	-	99,911
2004 Law Enforcement Terrorism PP	97.004	-	56,180
State Homeland Security Grant Program - Training Grant	97.004	-	7,746
State Homeland Security Grant Program - Exercise Grant	97.004	-	86
2003 State Homeland Security Grant Program Solution Area Planner	97.004	-	8,559
Total U.S. Department of Homeland Security			191,185
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,544,433

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County of Cheboygan, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - COGNIZANT AGENCY

The County has not been assigned a cognizant agency. Therefore, the County is under the general oversight of the U.S. Department of Agriculture which provided the greatest amount of direct federal funding to the County during 2005.

NOTE C - FEDERAL REVENUES

Federal Revenues per Financial Statement	\$ 794,395
Add: Loan Proceeds	120,276
Add: Component Unit Federal Revenues	628,557
Add: Federal Revenues classified as State	<u>1,205</u>
Total Federal Expenditures	<u>\$ 1,544,433</u>

NOTE D - FEDERAL GRANTS – ROAD COMMISSION

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning, and Construction pertaining to their County. However, only the federal awards applicable to force account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MODT.

During the year ended December 31, 2005, the Road Commission of Cheboygan County has less than \$500,000 of force account expenditures applicable to federal awards (local force revenue). As a result, an audit for compliance under the Single Audit Act has not been performed.

The federal revenues of \$628,557 represents the Department of Transportation Federal Highway grant money expended on public road improvement project which were administered by the Michigan Department of Transportation; however, required to be reported by the Road Commission.

Section A - Summary of Auditors' Results**Financial Statements**

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of Major Programs**CFDA NUMBERS****Name of Federal Program or Cluster**

10.760	Water & Waste Disposal Systems for Rural Communities
93.563	Child Support Enforcement
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

NONE.

C. FINDINGS - FEDERAL AWARDS AND QUESTIONED COSTS

NONE.

A. FINDINGS - MAJOR FEDERAL AWARDS PROGRAMS AUDIT

Finding 2004-1

The County did not comply with the documentation requirements for salaries and related benefits, charged to its Title IV D program, as established within the Office of Management and Budget (OMB) circular A-87.

Status: Corrected



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

Honorable Chairperson and Members
Of the Board of Commissioners
County of Cheboygan, Michigan

We have audited the financial statements of the County of Cheboygan for the year ended December 31, 2005, and have issued our reports thereon dated March 31, 2006. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the County of Cheboygan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County of Cheboygan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County of Cheboygan's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the County of Cheboygan's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County of Cheboygan's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the County of Cheboygan are described in Note 1. No new accounting policies were adopted and there were no changes to the application of any existing policies during the fiscal year. We noted no transactions entered into by the County of Cheboygan during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the County of Cheboygan's financial reporting process (this is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the County of Cheboygan, either individually or in the aggregate, indicate matters that could have a significant effect on the County of Cheboygan's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County of Cheboygan or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Recommendations

Friend of the Court Bank Accounts (Prior Year)

The Friend of the Court maintains a bank account, registered in the County's name, used to deposit parental payments received for child support. All of the money deposited into this account is periodically wired to the State of Michigan by the Friend of the Court. Currently this activity is not recorded in the County's general ledger system. We recommend that the County record this activity within an agency fund in the general ledger system, which will allow a more accurate accounting for the cash received for child support payments.

Receipts

During testing of receipts, it was noted that the Treasurer's Office makes bank deposits daily. These deposits consist of monies taken in during the previous business day. Concerning these deposits, the following characteristics were noted:

- All cash and all checks received for each individual day are aggregated respectively (one aggregated amount for cash and one for checks). Only these aggregate amounts (one amount for cash, one amount for aggregate checks) are listed on the deposit slip. Checks are not accounted for individually. This makes it difficult to trace or prove that individual monies received by the Treasurer's Office were deposited in the proper bank account.

941 Quarterly Reports

At the current time the quarterly IRS 941 reports are not reconciled to the wages on the County's general ledger. We understand that departments that previously processed their own payroll and posting of accruals complicate this reconciliation; however, to insure posting accuracy and proper reporting, we recommend a quarterly reconciliation be performed comparing wages reported per the County's general ledger to wages reported on the Federal form 941.

Inverness Sewer Project

Our procedures revealed that debt payments to Rural Development have not been received and distributed by the County as the bond document requires. Payments have been made directly from Inverness Township, who then in turn provides the County with a copy of the check. We recommend that the County pay the debt payments as required by the bond document with Rural Development.

Also, the payments required to fund the reserve for replacement have not been received for 2005. The bond document with Rural Development requires that the Township make quarterly payments to the County to establish and maintain a reserve for sewer system replacement.

Summer Tax Levy

With the change in the funding of Revenue Sharing, various issues have surfaced. The State allowed Counties to place an amount equal to 1/3 of their 2004 levy for three years from the 2004, 2005, and 2006 levies in a Reserve fund each January. To replace this 1/3 taken from the operating levy the County is allowed to levy a summer tax beginning in July of 2005. 1/3 of the 2005 levy, 2/3 of the 2006 levy and 3/3 of the 2007 levy would be summer collections. This process of funding would allow the Counties to still fund Revenue Sharing and still receive 100% of their operating levies each year. One area of concern is that the summer collections are not completely received in cash at year end. Furthermore, what isn't collected does not become delinquent until March 1 of each year. This creates a cash flow shortage which can be alleviated by borrowing from the Revenue Sharing Reserve Fund. It also creates a revenue recognition issue in that the revenue is not completely collected within 60 days of year end. It is collected when tax settlement occurs in March. In summary, because the legislature intended that the summer levy would make the Counties whole, we recommend that tax revenue be recorded to account for the uncollected portion of the summer levy at year end.

Conclusion

We would like to express our appreciation, as well as that of our staff, for the excellent cooperation we received while performing the audit. If we can be of assistance in implementing the above recommendations, please contact us.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

March 31, 2006